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THE INFORMAL ECONOMY

Keith Hart

The term "informal economy" became current in the 1970s as a label for economic activities which take place outside the framework of official institutions. It arose at first in response to the proliferation of self-employment and casual labour in Third World cities; but later the expression came to be used with reference to societies like Britain, where it competed with other adjectives describing deindustrialization - the "hidden" "underground", "black" economy, and so on. The social phenomenon is real enough and of some antiquity. London's East End in the mid-nineteenth century is a stark example of informal economic organization which rivals in scale any of today's tropical slum areas. Nevertheless, the empirical referents of the "informal economy" remain elusive, ranging as they do between the extremes of corrupt public finance in Zaire and do-it-yourself in a London suburb. The intellectual history of the concept is clearer. It was provoked by the failure of prevalent economic models to address a large part of the world that they claimed to describe. Sociologists, anthropologists, geographers and historians have grasped the opportunity to embarrass economists by pointing out this deficiency. More remarkably, many economists, including employees of such established bureaucracies as the World Bank and the International Labour Organization (ILO) have identified the "informal sector" as something they must deal with, at least as a feature of life among the Third World's urban poor.

Some notable attempts have been made to document the economy of the streets. Henry Mayhew's investigations for the Morning Chronicle in the 1850s, published as London labour and the London poor (four volumes, 1861-62), are a classic source, as are W.F. Whyte's American study Streetcorner society (1943) and Oscar Lewis's several accounts of the "culture of poverty", e.g. La Vida (1965). Very little of all this impinged on the world of development economists. At a 1971 conference on urban unemployment in Africa, Hart (1973) argued that

the masses who were surplus to the requirements for wage labour in African cities were not "unemployed", but rather were positively employed, even if often for erratic and low returns. He proposed that these activities be contrasted with the "formal" economy of government and organized capitalism as "informal income opportunities". Moreover, he suggested that the aggregate intersectoral relationship between the two sources of employment might be of some significance for models of economic development in the long run. In particular, the informal economy might be a passive adjunct of growth originating elsewhere or its dynamism might be a crucial ingredient of economic transformation in some cases.

The dualism (formal/informal) and some of the thinking behind it received immediate publicity through its adoption in an influential ILO report on incomes and employment in Kenya (1972), which elevated the "informal sector" to the status of a major source for national development by the bootstraps, as it were. This was enough to encourage legions of researchers to adopt the term in the 1970s. Before long a substantial critique of the "informal sector" concept had emerged. Marxists claimed that its proponents mystified the essentially regressive and exploitative nature of this economic zone, which they preferred to call "petty commodity production". The study of Third World urban poverty rapidly became a new segment of the academic division of labour; as a key term in its discourse, the informal economy attracted an unusual volume of debate (Bromley 1978). In recent years, British sociologists have applied the term to their own economy, whose formal institutions now employ a smaller proportion of the active labour force than at any time since the 1930s (Pahl 1985).

Popularity as a jargon word has not helped the informal economy/sector to acquire a measure of analytical precision. For many the term is a convenient name for an unambiguous empirical phenomenon - what you find in the slums of Manila. Others pay more attention to the logic of conceptual dualism, but vary greatly in their definition of its essence. Thus the distinction is commonly taken to refer to size (large-scale/small-scale), productivity (high/low), visibility

(enumerated/unenumerated), pattern of rewards (wages/self-employment), market conditions (monopoly/competitive) and much else. In all this, insufficient attention has been paid to the intellectual origins of the expression and to its usage in standard English. Hart (1973) explicitly derived his analysis from Weber's theory of rationalization which refers to the growing scope for bureaucratic organization and calculation of rewards in the history of western economic institutions. Weber believed that economic progress was inhibited by irregularity and unpredictability in social life and he saw the rational/legal state as guarantor of an emergent corporate capitalism. This process was in part one of increased formality in economic organization, as manifested in the planning of concrete enterprises and in an increasingly coherent body of economic theory. In this point of view there is a highly formalized part of all Third World economies today, where states, owing their existence in large degree to international institutions and forces, seek with variable effectiveness to establish their writ over economically backward populations. Equally, much that goes on in these economies is only marginally the product of state regulation: it is by that fact alone "informal" relative to the forms of publicly organized economic life. This is a qualitative distinction, so that questions of size or productivity cannot be intrinsic to its definition. Informality in this context is a matter of degrees of social organization.

If we consider normal English usage, "informal" refers to behaviour which relatively speaking lacks form. We all know the difference between formal and informal dancing or dress. But what is form? It is the presumptively invariant in the variable - "presumptively" because what is held to be invariant (the rule) is rarely so in practice. Form is thus what is regular, predictable, reproducible, recognizable; and it is intrinsic to all social behaviour in some degree. When we identify something as informal, it is because it fails to reproduce the pattern of some established form. The consequence for economic analysis is obvious. The "formal" economy is the epitome of whatever passes for regularity in our contemporary understanding, here the institutions of modern nation states, the more corporate levels of capitalist organization and the intellectual procedures

devised by economists to represent and manipulate the world. The "informal" economy is anything which is not entailed directly in these definitions of reality. From the standpoint of high civilization, whatever it cannot control or comprehend is "informal" - or, in Lord Dacre's flamboyant terms, "the wild gyrations of barbarous tribes" - that is, irregular, unpredictable, unstable, even invisible. Of course, the people whose activities appear in this light believe that they have social forms which help them to live from day to day; but these forms are usually less powerful and less rigid than those underwritten by state law and immense wealth.

It follows from this that informality is in the eye of the beholder. The elaborate social codes of the young are incomprehensible to their elders. The teeming streets of oriental cities offer an indefinable threat to the western tourist. The informal economy does not exist in any empirical sense: it is a way of contrasting some phenomena with what we imagine constitutes the orthodox core of our own economy. Providing that it is self-conscious, such an exercise is almost always beneficial. Without it we remain trapped in the secular theology of a myopic elite. Economic theory proceeds by means of abstraction; but it is as well to consider from time to time what it has left out. The International Monetary Fund imposes its traditional recipe for formal incorporation of insolvent governments into the official economy without regard for the informal pressures to which they are subject; and the international economic order staggers towards its next crisis. More insidiously, the media (especially the television news) reproduce daily the outward signs of the economy - unemployment figures, the exchange rate, share indexes - and our collective understanding fixes on forms without substance.

The formal/informal dualism can have at least three constructions. First, the informal may be the variable content of the form; thus street peddlars of cigarettes invisibly complete the chain linking large foreign firms to consumers. Second, it may be the negation of formal institutions, whether tax evasion, shop floor resistance or the world traffic in drugs. Third, it may be the residue of what is formal, i.e. more or less independent of it, not

predicated on it, simply other: much of the Third World's countryside is so alien to the urban-based, state-made economy that it would be nonsensical to suggest a dialectical relationship between the two. If we are to restrict the definition of "informal economy" at all, it seems reasonable to concentrate on the first two constructions - the relatively unspecified content of an economic form and subversion of such a form, its negation. The informal economy can then be taken to be an economic variant of the general theory of formal organizations.

It is nominalism of the most haphazard sort to claim that the urban poor have an informal economy, but their rich masters do not; or that the Third World has an informal sector, but not the industrialized west. As long as there is formal economic analysis and the partial institutionalization of economies around the globe along capitalist or socialist lines, there will be a need for some such remedial concept as the informal economy. Its application to concrete conditions is likely to be stimulated by palpable discrepancies between prevalent intellectual models and observed realities. Such a discrepancy provoked the emergence of the concept in the 1970s, when Third World economies bore the brunt of the depression which marked the end of the west's postwar miracle. Later the accelerating decline of the British economy encouraged some social scientists to adopt the term there. The common strand is the growing gap between modern states and the wider economic environments that sustain them. It is from this contrast that the need for a dualistic analysis, such as that offered by the "informal economy" concept, derives its impetus.

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